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PETROFINA CANADA LTD. ANNUAL REPORT 1972

The Company manufactures more than 80 petroleum and petrochemical products from crude oil. Some of these are listed below, with an indication of their end use.

Aliphatic solvents	camp stove fuel floor waxes drycleaning solvents insecticides
Asphalt	roads roofing fibreboards tile floor coverings plastic piping (insulation)
Coke	battery electrodes
Diesel fuel	tractors locomotives trucks
Furnace oil	home heating
Gasolines	automobiles propeller airplanes pleasure boats farm equipment
Jet engine fuel	jet aircraft
Kerosene	flat paints
Marine fuel	ships
Propane	heating and cooking refrigeration air conditioning
Residual fuel	commercial building heating
Stove oil	space heaters

Petrochemicals:

Benzene	paint remover telephone (plastics) bristle brushes tires radio and TV cabinets furniture
Chemical naphthas	antifreeze polyethylene bags
Nonene	low temperature plasticity products (garden hoses, etc.)
Polybutylene	caulking greases lubricants 2-cycle motor oils (lawn mowers, etc.)
Toluene	lacquers paints explosives insulation carpet underlays
Xylene	paint thinners industrial solvents
Ortho xylene	plastic toys furniture automobile safety padding

		1972	1971
Financial	Revenues	$235,961,000	$191,346,000
	Cash generation from all sources	33,566,000	32,339,000
	— per common share	3.36	3.24
	Net income — including non-recurring profit and write-off in 1971	19,006,000	16,604,000
	— per common share	1.91	1.66
	Dividends paid on common shares	7,727,000	6,976,000
	— per common share	.775	.70
	Capital expenditures	35,620,000	53,987,000
	Long-term debt at end of year	103,550,000	88,785,000
	Shareholders' equity at end of year	182,555,000	171,241,000
Operating	Production of crude oil and natural gas liquids — gross (barrels)	7,972,000	6,413,000
	Natural gas produced and sold — gross (thousands of cubic feet)	34,585,000	32,202,000
	Sales of sulphur (long tons)	106,000	106,000
	Crude oil runs to refinery (barrels)	21,266,000	21,354,000

Principal officers

A. F. Campo, Chairman of the Board and Chief Executive Officer

P. A. Nadeau, Vice-Chairman of the Board

J. R. Patton, President

Donald Harvie, Senior Vice-President

J. E. Baugh, Vice-President (Exploration & Production)

J. Cartier, Vice-President (Marketing)

H. J. Hughes, Vice-President and Comptroller

A. W. McLeod, Vice-President, General Counsel and Secretary

J. F. Mills, Vice-President (Manufacturing)

K. S. C. Mulhall, Vice-President and Treasurer

Directors

W. A. Arbuckle, Chairman of the Canadian Board of The Standard Life Assurance Company

L. Beaudoin, President, Bombardier Ltd.

A. F. Campo, Chairman of the Board and Chief Executive Officer, Petrofina Canada Ltd.

F. M. Covert, O.B.E., D.F.C., Q.C., Senior Partner, Stewart, MacKeen & Covert

W. L. Forster, C.B.E., Consultant

The Hon. J. J. Greene, Member of the Senate

Donald Harvie, Senior Vice-President, Petrofina Canada Ltd.

Emmanuel Lamy, President, Banque de l'Union Parisienne, C.F.C.B.

Roger Létourneau, Q.C., Senior Partner, Létourneau, Stein, Marseille, Delisle & LaRue

J. Meeus, President and Chief Executive Officer, Petrofina S.A.

P. A. Nadeau, Vice-Chairman of the Board, Petrofina Canada Ltd.

Trajan Nitescu, Petroleum Consultant

Blancke Noyes, Partner, Hornblower & Weeks-Hemphill, Noyes

J. R. Patton, President, Petrofina Canada Ltd.

Sam Steinberg, Chairman of the Board, Steinberg's Limited

Peter N. Thomson, Deputy Chairman, Power Corporation of Canada, Limited

Baron Wolters, Chairman of the Board, Petrofina S.A.

Executive offices

The Royal Bank of Canada Building,
1 Place Ville Marie, Montreal 113,
Quebec, Canada

Auditors

Clarkson, Gordon & Co.

Transfer agent

Montreal Trust Company

Registrar

The Royal Trust Company

Ce rapport a été publié en français et en anglais. Si vous préférez un exemplaire français, veuillez en faire la demande au: Secrétaire, Petrofina Canada Ltée, 1 Place Ville Marie, Montréal 113, Québec, Canada.

The Canadian economy in 1972 continued to be plagued by the two phenomena common to the North American continent. Unemployment remained high at 6.5% of the labour market and inflationary pressures continued to erode the purchasing power of the dollar.

Gross National Product showed an increase of 10% and reached $103,000,000,000. However, as price increases accounted for 4.5% of this, the real growth was 5.5% due mostly to increases in consumer spending, housing, as well as by capital spending on plant and equipment.

The international trade picture showed an increase in exports of 12% during 1972 over the previous year. However, imports increased by 18%, the net effect being a trade surplus of only one billion dollars in 1972, compared with two billion, three hundred million in 1971.

The Canadian petroleum industry recorded substantial gains. Production of crude oil and natural gas liquids reached an average of 1,836,000 barrels per day, an increase of over 16% from the previous year. Domestic consumption of petroleum products rose by 9% to 1,700,000 barrels per day, while exports to the United States in late December reached the unprecedented figure of 1,100,000 barrels per day. Natural gas sales amounted to over six billion cubic feet per day, an increase of over 12%.

The Company's consolidated net income for 1972 reached a high of $19,006,000, or $1.91 per share, a gain of 14% over 1971 net income of $16,604,000 or $1.66 per share. Earnings in 1971 were reduced by non-recurring items in the net amount of $1,467,000.

Financial results, details of which appear later in this report, were adversely affected by unexpected plant shutdowns, delays in the start-up of new units at the refinery, gasoline price wars in Eastern Canada and increases in charges for interest and depreciation.

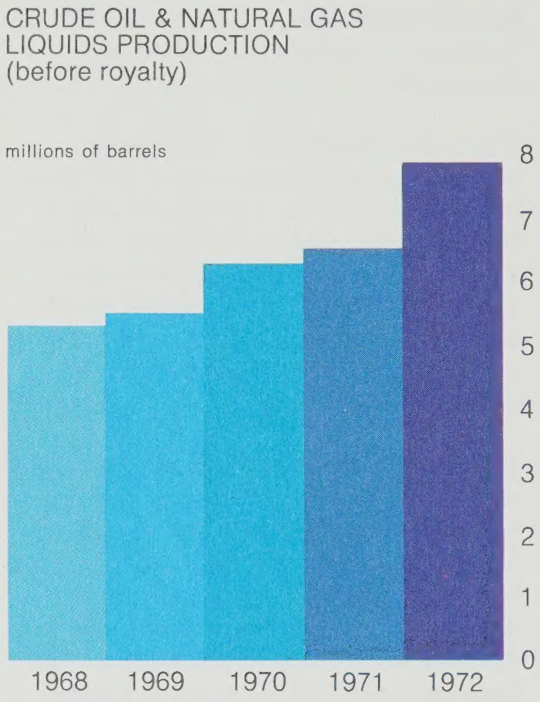
During the year the world seemed to become suddenly conscious of the importance of crude oil as a source of energy. Unfortunately, most of the known reserves are in the Middle East with the consequence that the conditions under which supplies of crude oil can be obtained from the producing countries are becoming increasingly onerous.

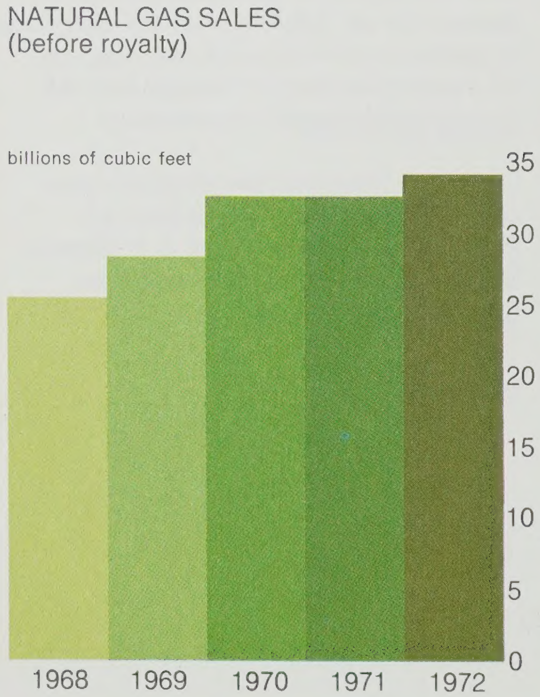
The finding of new oil fields requires such high investments and risks that only the hope of adequate returns can attract part of the capital required, with the major part having to be provided internally from profits. The scarcity of crude oil in North America will undoubtedly accelerate the development of the tar sands in Canada which will also require enormous investments.

All of this points out forcibly to the need for the oil industry to obtain higher income in order to be able to satisfy the country's demand for oil. It follows that the low prices of petroleum products that were enjoyed for years are a thing of the past and will have to be increased considerably.

During the year, two new directors were elected to the Board. These were Mr. P. A. Nadeau, and The Hon. J. J. Greene. Mr. Nadeau was also appointed Vice-Chairman of the Board.

Drilling rig on location at Windfall, Alberta, where the Company and its partners discovered oil.





As at December 31, 1972, the Company had 2,046 employees. We particularly want to stress our keen awareness of their spirit, loyalty and dedication.

Exploration and production

To assist the shareholders in following this portion of the Company's activities, detailed maps of acreage held and principal areas of operation appear at the back of the report.

The 1972 exploration operations of the Company were highlighted by the discovery of a Triassic gas field in the Fir area of the West Whitecourt Project in Alberta. By the end of the year the Whitecourt group, in which the Company has a 16⅔% working interest, had completed five successful gas wells and had drilled two dry ones. The delineation of the Fir field is still in progress.

The same group also drilled another discovery well in the Windfall D-3 "B" oil pool immediately east of Windfall. This well is capable of producing over 100 barrels per day. Two step-out wells resulted in one other good oil producer and an abandonment. Drilling in the area is continuing.

In addition to these discoveries, another well drilled two miles north of Windfall encountered gas in commercial quantities from a separate pool known as the Windfall D-3 "C" pool. A further well drilled near the northwest edge of the producing Windfall gas field has indicated an encouraging extension, but the significance of these successes will not properly be known until we complete the current drilling program.

The drilling program for the past year consisted of participation in 61 wells of which 8 were oil wells, 20 were gas wells, 24 were abandoned, 2 were awaiting completion and 7 wells were still drilling at December 31. These statistics do not include wells drilled on lands controlled by Panarctic Oils Ltd. in which the Company holds a 2% net carried interest acquired early in 1972 through the purchase of all of the outstanding shares in Arctic Islands Resources Ltd. This major acquisition provides the Company with representation, without further cost, in a large, well planned and current exploration program in the important and prospective geological basin comprising the Arctic Islands.

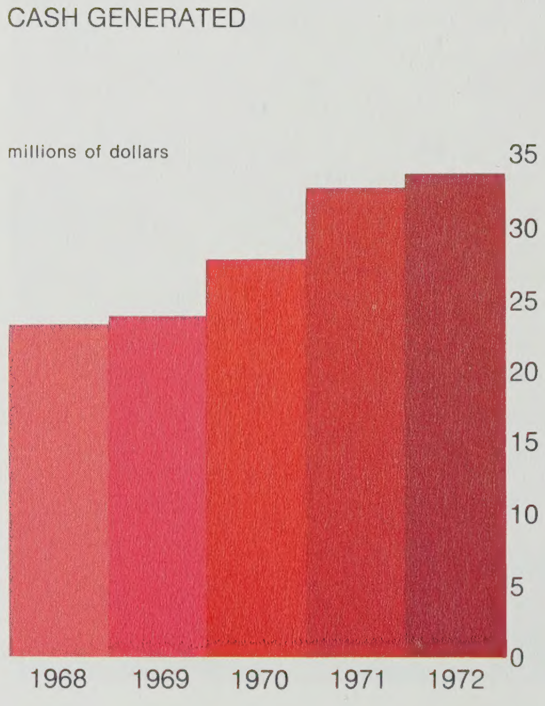
At Coalspur, in west central Alberta, the Company is increasing its interest from 10% to 32½% in certain of the lands concerned. The first deep test was drilled and abandoned and a second deep test was drilling at the end of 1972.

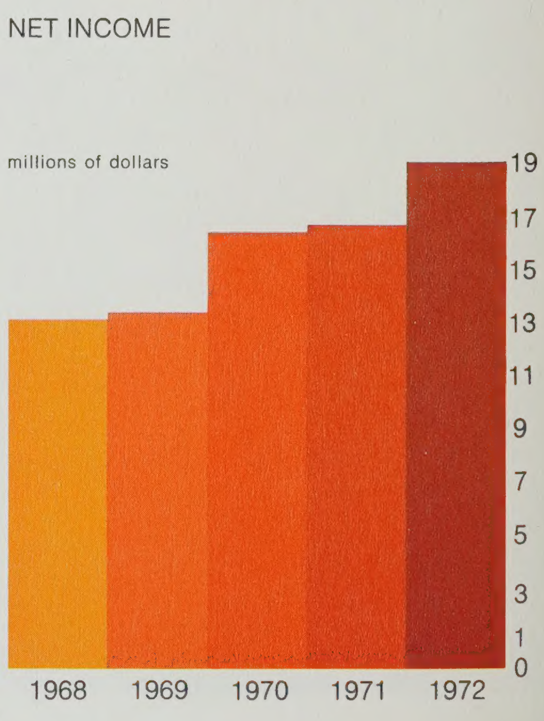
A farm-in of Federal Permit lands located in the South Mackenzie Delta has been negotiated on a basis whereby the Company will earn a 10% interest in 48,000 acres by paying 20% of the costs of the initial test well, (Bluemont Gulf South Delta J-80), and has the option to drill to earn a like interest in a further 190,000 acres.

The lands held under Permits in the Hudson Bay totalled 18 million acres at year-end and the Company's interest was increased fractionally to 6.6%. Subject to the availability of suitable drilling equipment, the partners may carry out a costly offshore drilling program during the short ice-free season of 1973.

In the Maritimes, the farmee of the project holdings completed its obligation to spend $7 million and has thereby earned a 33⅓% working interest in the lands which totalled 9.7 million acres at year-end. The Company's interest is now 16⅔%. During the year two deep onshore wells were

An aerial view of the Company's newly expanded refinery and petrochemical complex at Pointe-aux-Trembles, Quebec.





drilled at Irishtown and Green Gables on Prince Edward Island, both being abandoned. Due to difficulties in obtaining suitable offshore drilling equipment, no firm plans for the 1973 drilling season have been made.

At December 31, 1972, the Company held an interest in 34.5 million acres of various types of petroleum rights amounting to 6.4 million net acres not including the carried interest in Panarctic.

Sales of crude oil and natural gas liquids amounted to 7.9 million bbls. in 1972, an increase of 24% over the previous year. The average daily liquid production was approximately 21,700 bbls. compared to 17,500 in 1971. Natural gas sales amounted to 34.5 billion cubic feet, an increase of 7% over 1971. Sulphur sales, which continued to suffer severely from market conditions, were 106,000 long tons, the same as last year.

Prices for the Company's crude oil production were increased 10¢ per barrel at the wellhead effective in November 1972. A further 20¢ per barrel increase was announced in January 1973.

In July 1972, an average increase of 6¢ per MCF in the price of gas sold from Wildcat Hills, Whitecourt and certain other Alberta gas fields was negotiated with Alberta and Southern Gas Company Ltd. The fields concerned represent about 44% of the Company's gas production. The increased revenue will amount to approximately $2 million over the period July 1972 to July 1974, the date when prices are again subject to re-determination.

An award granted by an arbitration board in December 1972 increased the wellhead price of gas delivered from the Rigel field in British Columbia by 3¢ per MCF effective January 1, 1973.

The Province of Alberta decided to increase oil royalties on all new leases and apply a mineral tax to crude oil reserves not subject to the new royalty rates. This tax will be assessed on all crude oil reserves in the province commencing January 1, 1973 whether such reserves underlie provincial Crown rights or freehold rights. The lessees of Crown rights will have a one-time option, exercisable before July 31, 1973, to be relieved from payment of the mineral tax by voluntarily increasing the oil royalty payable to the Crown from the former rates which have a 16⅔% maximum to the new royalty schedule which has a maximum of 25%. It is expected that the increased net payment to the government by the Company in 1973 will be approximately $750,000.

The Company objected strongly to the degree of this increase and the fairness of extending it to our freehold properties. On the other hand it supported the exploratory drilling incentives, which were adopted concurrently, as being beneficial to all parties.

Following a major detailed independent review of our productive holdings, the Company's proven reserves of crude oil and natural gas liquids, before royalty, were estimated at 108 million barrels representing no change from the end of 1971. Proven natural gas reserves were 726 billion cubic feet compared to 761 billion the previous year and sulphur reserves remained at 3 million long tons. These estimates do not include reserves for our Athabasca oil sands properties or the carried interest in Panarctic Oils Ltd.

During the winter season of 1971-1972 the Athabasca Oil Sands Project group, for which Petrofina Canada Ltd. is the operator and holds a 35.337% working interest, did further major exploratory work in Eymundson-Calumet and the Daphne areas (see map). Some 81 holes were cored to further outline the reserves in these areas. In September the Group embarked on a large but preliminary feasibility study which should be completed by mid 1973 to consider alternative methods and economics of bringing some of these deposits into commercial production. The results of this study, together with the terms of the anticipated new Alberta oil sands policy expected in mid 1973, should determine whether our property development might proceed at this time. If royalty rates, environmental standards and taxation costs are not realistically competitive with other energy resources, then further deferment of this potential Canadian resource may once again occur. Our near surface properties indicate large, good quality reserves of bitumen potentially recoverable by mining methods.

Tightening provincial standards of environmental protection will require sizeable and incremental capital investment at many of the gas plants in which the Company has an interest. Recovery of these expenditures can only serve to squeeze profit margins unless product prices are further increased.

Manufacturing

The amount of crude oil processed by the refinery was 21,266,000 barrels for an average of 58,100 barrels per day. This is a slight decrease from the previous year and is accounted for by maintenance requirements and shutdown time to connect the new facilities.

Petrochemicals are now being manufactured in sufficient volumes to warrant special reference in this report. The sulfolane extraction unit completed its first full year of operation, while the ortho-xylene unit, the only one in Canada, was on stream from the middle of February.

The production of petrochemicals was as follows:—

	Total barrels
Benzene	404,100
Toluene	449,300
Ortho-xylene	65,900
Other xylenes	49,500
Nonenes	67,100
Polybutenes	40,600
	1,076,500

The major expansion program at the refinery was almost complete at the end of the year.

One of the most important units added to the refinery complex was the hydrocracker (isomax) unit.

This unit will produce high quality jet fuel and stove, diesel and furnace fuels of very low sulphur content.

An additional 425,000 barrel crude oil tank was completed and put into service in order to increase the inventory of crude oil available at Montreal.

The Company continues to recognize its responsibility in matters which affect the environment and among the steps taken in 1972 to minimize air and water pollution were the following:—

(a) Improvements in the fluid coking unit to reduce the loss of fine coke dust from the burner stack.

(b) A larger absorption tower was installed to remove hydrogen sulphide from high pressure gas streams. This tower is designed to reduce to the minimum the emissions of sulphur into the atmosphere.

(c) The new 425,000 barrel crude oil tank was equipped with a floating roof to minimize the escape of hydrocarbon vapours.

(d) A new flare was placed in service which will reduce considerably the amount of smoke emissions.

(e) Mechanical seals were installed on pumps in light hydrocarbon service in the new units. These seals reduce the escape of vapours into the atmosphere.

(f) Purchases of low sulphur crude oil were increased to produce fuels with lower sulphur content.

(g) A new pump was installed on the coker unit to collect oil-water effluents.

(h) A new drainage basin was constructed at the Company's dock to avoid leakage of oil into the river.

(i) Additional equipment, including a 700-ft. floating oil containment boom, was purchased to improve the recovery potential in the event of a spill on the St. Lawrence River.

Supply and refinery sales

During the year, 21,140,000 barrels of crude oil were delivered to the Company's Pointe-aux-Trembles refinery. The price of crude oil purchased continued to rise as a result of pressure exerted by the OPEC countries and further upward adjustments will occur in 1973. In addition, heavy demand for ocean transportation increased freight costs.

The Company's petrochemical production and sales in 1972 were more than double the volumes in the preceding year. Total sales of these valuable feed stocks exceeded 31,000,000 gallons. The products include nonenes, polybutenes, benzene, toluene and various types of xylenes.

Marketing

What is probably not generally realized by the public is the substantial diversification in the number of products manufactured and sold by your Company. A total of eighty petroleum derivatives from crude oil are available from the Company's refining operations.

The Marketing Department, which is largely responsible for the sales of these products, achieved an increase of 11.6% in total sales over 1971.

Transportation in all its phases depends almost entirely on petroleum products. In this area, your Company plays an important part. We are one of the largest suppliers of jet fuel at the Dorval airport in Montreal, and also provide aviation gasoline to the Canadian Armed Forces and diesel oil to the railways and to the highway transportation companies.

Asphalt sales continue to be expanded. The various types of asphalt sold include materials for highways, airport runways, roofing shingles, water-proofing compounds, paints and saturated paper.

The Company manufactures and sells an extensive range of solvents, from the commonplace household and dry cleaning liquids, to the more sophisticated products sold under the Company's trade name "FINASOL".

The aromatics such as benzene, toluene and xylenes find their way into paints, lacquers, herbicides, and insecticide formulations.

Polyisobutylene, manufactured in Canada exclusively by the Company, is used as a base for outboard and snowmobile oils. It is also the basic material for the special motor oil developed for the lubrication of the new Wankel rotary engine.

At the service station level, the Company continued to modify its existing stations by the application of the name "FINA" with the red and blue stripes as illustrated on the front cover of this report. A number of older stations were either disposed of or renovated, and, at year-end, the Company had a total of 1,561 outlets in operation.

Financial review

The Company's operations in 1972 resulted in a modest increase in operating net income and a good increase in cash generation. There were no non-recurring items in 1972. It should be noted that at December 31, 1972, the Company had stockpiled 186,000 long tons of sulphur. It is the Company's policy to charge the cost of producing this sulphur against earnings but no value has been placed upon the inventory as the ultimate sales price is uncertain under present depressed market conditions.

The financial results and a comparison with the previous year are given below:

	1972	1971
Net income — before extraordinary items	$ 19,006,000	$ 18,071,000
— per share	1.91	1.81
Non-recurring write-off of iron powder development costs	—	3,446,000
— per share	—	0.35
Non-recurring profit on sale of assets	—	1,979,000
— per share	—	0.20
Total net income from all sources	19,006,000	16,604,000
— per share	1.91	1.66

A comparative statement of cash generated from operations is as follows:

	1972	1971
Cash generation — before extraordinary items	$ 33,566,000	$ 30,360,000
— per share	3.36	3.04
Cash generated from non-recurring sale of assets	—	1,979,000
— per share	—	0.20
Total cash generated	33,566,000	32,339,000
— per share	3.36	3.24

The Company's working capital at year-end was $17,220,000, compared with $16,852,000 in 1971.

The following capital amounts were invested in properties, plant and equipment in 1972, compared with the figures for 1971:

	1972	1971
Exploration and Production	$ 10,183,000	$ 14,818,000
Manufacturing	19,729,000	29,582,000
Marketing	5,493,000	9,349,000
Other	215,000	238,000
	$ 35,620,000	$ 53,987,000

In 1972, the Company increased its dividend payments from 70¢ per share to 77½¢ per share. The total amount paid in 1972 was $7,727,000.

SUBMITTED ON BEHALF OF THE BOARD

A. Campo

Chairman of the Board and
Chief Executive Officer

March 7, 1973

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
year ended december 31, 1972

	1972	1971
Revenue:		
Operating revenue	$232,927,634	$188,771,996
Interest and other	3,032,984	2,573,667
	235,960,618	191,345,663
Operating charges:		
Product costs, operating, exploration and administrative expenses	192,444,010	153,013,847
Taxes other than income taxes	4,879,576	4,345,091
Depreciation (note 4)	8,758,849	7,468,629
Depletion (note 4)	5,654,755	4,590,505
	211,737,190	169,418,072
	24,223,428	21,927,591
Interest on long-term debt	5,217,648	3,833,421
Income before minority interest and extraordinary items	19,005,780	18,094,170
Income applicable to minority interest	—	23,375
Income before extraordinary items	19,005,780	18,070,795
Extraordinary items:		
Profit on sale of an office building	—	1,979,431
Deferred charges written off	—	(3,446,509)
Net income	$ 19,005,780	$ 16,603,717
Retained earnings, beginning of year	$ 56,026,132	$ 46,398,561
Add net income	19,005,780	16,603,717
Deduct dividends	7,727,025	6,976,146
Retained earnings, end of year	$ 67,304,887	$ 56,026,132
Earnings per share before extraordinary items	$1.91	$1.81
Extraordinary items	—	(.15)
Earnings per share	$1.91	$1.66

See accompanying notes

PETROFINA CANADA LTD.
AND SUBSIDIARIES
(Incorporated under the laws of Canada)

CONSOLIDATED BALANCE SHEET
december 31, 1972

Assets

	1972	1971
Current:		
Cash	$ 4,383,589	$ 8,279,526
Accounts receivable, less allowance for doubtful accounts	37,369,380	29,160,928
Due from affiliated companies	18,599,127	3,195,376
Inventories (note 2)		
Oil products and other merchandise	25,112,245	24,074,042
Materials and supplies	3,960,020	3,875,513
Prepaid expenses	2,068,774	1,519,692
Total current assets	91,493,135	70,105,077
Investments and advances — at cost:		
Investments in other companies	2,462,605	2,462,605
Exploration, development and production deposits	281,346	349,430
Other (note 3)	14,361,701	7,847,357
	17,105,652	10,659,392
Properties, plant and equipment (note 4)	246,479,049	227,248,749
Deferred charges	1,226,436	1,328,252
Premiums paid on acquisitions — at cost	9,052,947	8,950,326
	$365,357,219	$318,291,796

On behalf of the Board:
A. F. CAMPO, Director
J. R. PATTON, Director

See accompanying notes

Liabilities and shareholders' equity

	1972	1971
Current:		
Accounts payable and accrued charges	$ 40,516,580	$ 30,076,383
Dividends payable	550,701	445,740
Due to parent company	5,622,548	3,293,046
Due to affiliated companies	—	42,447
Notes and bills payable	17,914,844	13,432,256
Current maturities of long-term debt	9,668,310	5,963,082
Total current liabilities	74,272,983	53,252,954
Advances by parent company (U.S. $5,000,000) not due within one year	4,979,688	5,012,500
Long-term debt (note 5)	103,549,689	88,785,176
Total liabilities	182,802,360	147,050,630
Shareholders' equity:		
Capital (note 6)		
Common shares of $10 par value:		
Authorized — 12,000,000 shares		
Issued — 9,971,274 shares (1971 — 9,968,374 shares)	99,712,740	99,683,740
Contributed surplus (note 6)	15,537,232	15,531,294
Retained earnings (note 5)	67,304,887	56,026,132
	182,554,859	171,241,166
	$365,357,219	$318,291,796

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
year ended december 31, 1972

	1972	1971
Source of funds:		
Operations —		
Net income	$ 19,005,780	$ 16,603,717
Depreciation, depletion and amortization	14,560,533	12,289,184
Deferred charges written off	—	3,446,509
Total funds from operations	33,566,313	32,339,410
Long-term borrowings	25,385,861	51,521,010
Sale of fixed assets	1,975,637	6,262,679
Issue of shares	34,938	77,244
Net decrease in other items	35,272	132,420
	60,998,021	90,332,763
Application of funds:		
Additions to properties, plant and equipment	35,619,541	53,986,894
Repayments of long-term debt	10,621,348	28,119,419
Dividends paid	7,727,025	6,976,146
Net increase (decrease) in other investments and advances	6,514,344	(109,937)
Purchase of minority interest	—	455,306
Premiums paid on acquisitions	102,621	194,879
Net increase in deferred charges	45,113	455,964
	60,629,992	90,078,671
Net increase in working capital	368,029	254,092
Working capital, beginning of year	16,852,123	16,598,031
Working capital, end of year	$ 17,220,152	$ 16,852,123

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
december 31, 1972

1. General

The consolidated financial statements include the accounts of Petrofina Canada Ltd. and all subsidiaries.

Amounts in currencies other than Canadian dollars, have been translated as follows:

Current assets and current liabilities and advances by the parent company — at rates of exchange prevailing at year-end;

Long-term debt — at the rate of exchange prevailing at the date the debt was incurred;

Revenue and expenses — at rates of exchange prevailing through the year.

2. Inventories

Oil products and other merchandise are shown at the lower of cost and net realizable value. Cost of oil products has been determined on the basis of the last-in, first-out method. Materials and supplies are shown at the lower of cost and replacement value.

3. Investments and advances — other

Other investments consist of a 2% carried interest in the net production income of Panarctic Oils Ltd. (acquired in 1972 for $6,375,000), mortgages and other receivables.

4. Properties, plant and equipment

	1972			1971
	Cost	Accumulated depreciation and depletion*	Net book value	Net book value
Production	$185,947,981	$ 72,824,414	$113,123,567	$111,158,794
Refining	125,519,097	46,051,080	79,468,017	63,470,925
Marketing	78,473,753	28,093,074	50,380,679	48,679,826
Other	4,933,439	1,426,653	3,506,786	3,939,204
	$394,874,270	$148,395,221	$246,479,049	$227,248,749

*includes depletion of $57,857,297

Production properties —
The full-cost method of accounting is followed wherein all costs related to the exploration for and the development of oil and gas reserves are capitalized. The total costs thus capitalized are depleted on the composite unit of production method based on the estimated reserves of oil, gas and other saleable products. Depreciation on production equipment, gas plants and related facilities is provided on the same basis.

Refining, marketing and other properties and equipment —
Depreciation is based on the estimated service lives of the assets, calculated on the straight-line method except for vehicles, where the diminishing balance method is used.

5.
Long-term debt

Petrofina Canada Ltd. —		
Secured:		
Production loans secured by certain oil and gas properties, payable in various amounts through 1980 with interest rates varying between prime rate and 1% above prime rate	$ 14,147,394	
Other loans (mainly mortgages on real estate)	583,370	$ 14,730,764
Unsecured:		
Loan with interest varying between ¾% and 1¼% above the prime rate, due in varying annual instalments through 1982	45,000,000	
Loans with interest between ½% and 1% above the prime rate, due in varying annual instalments through 1982	36,449,844	
6⅛% promissory notes totalling U.S. $7,750,000 payable U.S. $850,000 annually to 1980 and the balance in 1981	8,367,145	
6% loan due in semi-annual instalments from 1976 to 1978 (U.S. $1,571,095)	1,563,602	
9% loan due $400,000 annually to 1974	800,000	
Non-interest bearing advances made to finance the development of certain gas reserves, repayable out of production	2,485,734	
Other loans	120,910	94,787,235
		109,517,999
Subsidiaries —		
Unsecured:		
Loan with interest at ¾% above the prime rate, due $200,000 annually to 1978 and the balance in 1979	2,200,000	
Loan with interest at the prime rate, due by 1975	500,000	
6¼% loan repayable $500,000 annually to 1974	1,000,000	3,700,000
		113,217,999
Less instalments included in current liabilities		9,668,310
		$103,549,689

Annual payments required to retire long-term debt amount to approximately $14,208,000 in 1974, $13,017,000 in 1975, $11,896,000 in 1976 and $11,834,000 in 1977.

Included in the covenants contained in agreements relating to certain of the long-term debts are restrictions limiting the amount of consolidated long-term debt and the payment of dividends by the Company. Dividends cannot be paid if as a result, the consolidated retained earnings are reduced below $13,539,000. Consolidated retained earnings as at December 31, 1972 were $67,304,887.

6.
Capital

During the year, 2,900 common shares were issued under the stock option plan. The premium of $5,938 received on the issuance of these shares has been credited to contributed surplus. The Company has reserved 45,100 common shares for issuance under the stock option plan, and as at December 31, 1972, options had been granted on 3,900 shares, particulars being as follows:

Number of shares	Option price per share	Date exercisable
300	$11.02	To August 5, 1975
600	12.625	To January 31, 1974
3,000	13.61	To February 4, 1975

7.
Income taxes

For income tax purposes, intangible development costs, namely lease acquisition, exploration and drilling costs, have been claimed in excess of the related depletion and amortization reflected in the accounts, thus eliminating or reducing income taxes otherwise payable. On the other hand, capital cost allowances have been claimed in amounts which are less than the related depreciation reflected in the consolidated accounts.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. The Company does not believe that tax allocation in respect of intangible development costs is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs. At the same time, no credit has been taken for future tax reductions which will result from timing differences involving depreciation and capital cost allowances.

If the tax allocation basis, as recommended by the Canadian Institute of Chartered Accountants, had been followed in current and prior years, a charge against income for the year for income taxes of approximately $800,000 (1971 — $2,300,000) would have been required and the cumulative amount of deferred tax credits to December 31, 1972 would have been approximately $11,800,000 (1971 — $11,000,000).

8.
Commitments and contingencies

Annual rentals payable on long-term leases (three years and over) for real property amount to approximately $3,392,000 (1971 — $3,316,000).

At December 31, 1972 the companies had guaranteed loans amounting to approximately $1,385,000.

9.
Remuneration of directors and officers

During the year, the seventeen directors of the Company received $22,700 as directors and the ten officers of the Company (four of whom were directors) received $539,000 as officers.

TEN YEAR REVIEW OF OPERATIONS

		1972	1971
Statistical	Crude oil and natural gas liquids production (before royalty) for the year (thousands of barrels)	7,972	6,413
	Natural gas sales (before royalty) for the year (millions of cubic feet)	34,585	32,202
	Number of wells drilled in which Company had participation	61	44
	Number of wells completed in which Company had participation	28	9
	Sulphur sales (long tons)	106,000	106,000
	Gross acreage (thousands of acres)	34,500	35,700
	Net acreage (thousands of acres)	6,400	6,700
	Crude oil run to refinery stills for the year (thousands of barrels)	21,266	21,354
	Total outlets used in distribution of refined products	1,561	1,567
	Number of employees	2,046	2,032
Financial (in thousands of dollars)	Revenue for the year	235,961	191,346
	Net income	19,006	16,604
	Depreciation, depletion and amortization (including amortization of excess cost)	14,561	15,735*
	Total cash generated	33,566	32,339
	Working capital	17,220	16,852
	Total assets	365,357	318,292
	Long-term debt	103,550	88,785
	Book value of shareholders' equity	182,555	171,241

*Includes special non-recurring write-off of $3,446,000

1970	1969	1968	1967	1966	1965	1964	1963
6,217	5,324	5,151	5,305	5,104	4,614	4,578	4,393
32,306	27,945	24,969	23,494	22,057	21,631	22,179	20,320
54	85	89	76	119	84	66	86
15	44	42	41	74	43	42	52
124,400	105,700	52,400	81,100	74,900	71,500	57,000	49,500
76,300	76,700	88,000	15,700	6,200	5,800	5,600	5,400
8,900	10,400	11,300	5,500	2,900	—	—	—
20,671	19,125	17,666	15,852	13,290	12,168	11,702	11,559
1,609	1,625	1,739	1,731	1,755	1,783	1,783	1,768
2,057	1,616	1,607	1,491	1,388	1,352	1,262	1,116
182,621	179,079	162,712	155,709	143,828	143,345	139,155	131,388
16,555	13,402	13,014	10,706	9,292	8,549	7,076	6,973
11,190	9,842	9,760	10,376	9,442	8,870	8,950	8,191
27,745	23,243	22,774	21,082	18,920	17,550	16,157	16,399
16,598	15,513	15,586	15,052	15,721	12,396	10,370	10,153
301,831	272,479	246,864	243,798	229,231	220,349	203,808	201,761
65,384	55,772	46,739	49,500	39,838	34,378	31,935	27,910
161,536	151,915	146,750	139,457	134,352	130,999	127,737	126,266

To the Shareholders of
Petrofina Canada Ltd.:

We have examined the consolidated balance sheet of Petrofina Canada Ltd. and its subsidiaries as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Montreal, Canada,
February 13, 1973.

PETROFINA CANADA LTD.
Map of Land Holdings
Legend
OIL PRODUCTION
GAS PRODUCTION
COMPANY LAND INTEREST
W.I. WORKING INTEREST
C.I. CARRIED INTEREST
December 31, 1972
50 0 100 200 300 400 500 Miles
GRAPHIC SCALE — MILES
PANARCTIC LANDS IN WHICH PETROFINA HOLDS 2% C.I.
APPROX. 65,000,000 PERMIT ACRES
SOUTH MACKENZIE DELTA
EAGLE PLAINS 100% W.I.
FORT McPHERSON 33.33% W.I.
COLVILLE LAKE 100% W.I.
BLACKWATER 30% W.I.
WILLOW LAKE 50% W.I.
NAHANNI PLATEAU 100% W.I.
TRAINOR LAKE 50% W.I.
HUDSON BAY 6.6% W.I.
18,380,000 Acres
MARITIMES 16.67% W.I.
9,705,000 Acres
PRUDHOE BAY
SACHS HARBOUR
INUVIK
Norman Wells
Great Bear Lake
Great Slave Lake
YELLOWKNIFE
FT SIMPSON
WHITEHORSE
PRINCE RUPERT
VANCOUVER
VICTORIA
EDMONTON
CALGARY
SASKATOON
REGINA
WINNIPEG
QUEBEC
MONTREAL
OTTAWA
TORONTO
SAINT JOHN
HALIFAX
ST. JOHN'S
Sable Island
Primrose
VICTORIA
DEVON
BAFFIN
CAMBRIDGE BAY
POND INLET
FROBISHER BAY
GREENLAND
ALASKA
YUKON
N.W.T.
BRITISH COLUMBIA
ALBERTA
SASK.
MANITOBA
ONTARIO
QUEBEC
UNITED STATES

NOTE: GRID AREA IS FOUR TOWNSHIPS

FINA

PETROFINA CANADA LTD. LTÉE
TELEPHONE: (514) 866-3911 — TELEX: 05267593
1 PLACE VILLE MARIE – C.P. 3006 STATION B
MONTREAL 113, P.Q.

PRESS RELEASE For release Wednesday, August 9, 1972.

For information: K.S.C. Mulhall
Vice-President and Treasurer
514 - 866 - 3911

Montreal - For the second time in less than one year, Petrofina Canada Ltd. has increased its semi-annual dividend. In February 1972, the dividend was increased from 35¢ per share to 37½¢ per share, and on August 4, 1972, the dividend was increased to 40¢ per share.

Net income of the Company for the first six months of 1972 increased by 22.8% over the comparable period in the previous year. Earnings amounted to $9,629,000., (96¢ per share), compared with $7,838,000., (79¢ per share) in 1971.

Production of crude oil and natural gas liquids increased by 14% to 3,517,000 bbls. Production of natural gas increased 10% to 17,623,000 MCF, while sales of sulphur improved by 18% to 59,680 long tons.

About a month ago, the Company and its associates announced the discovery of natural gas in three widely spaced exploratory tests in the Fir Area of West Central Alberta. The same group also announced the discovery of gas in the North Windfall area. While no further particulars are available at this time, the group have since acquired additional acreage adjacent to these discovery wells and further evaluation will take place.

In Eastern Canada, sales of refined products were maintained at a satisfactory level but profit margins were eroded by severe price disturbances.